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C O N F I D E N T I A L SECTION 01 OF 03 MANILA 001758

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SUBJECT: SCENESETTER FOR ADMIRAL BIRD'S VISIT TO THE
PHILIPPINES

Classified By: Ambassador Kristie A. Kenney; reasons 1.4 (b) and (d)

11. (SBU) SUMMARY: Admiral Bird, welcome back to the Philippines! The U.S. 7th Fleet is an important player in our interagency engagement to promote U.S. interests in the Philippines. The Philippine Armed Forces continue to score successes against terrorists in the southern Philippines, even as it reforms itself and controls extrajudicial killings -- all with U.S. help. The Philippine government is moving forward dramatically its peace process with Muslim insurgents, separating them from terrorists, with U.S. support. The political situation is never dull, especially as the country looks towards presidential elections in 2010, but we expect President Arroyo to finish her term without major incidents. During your visit, you will be briefed by the Mission Country Team and will go aboard the USS STOCKHAM.
END SUMMARY.

MILITARY ENGAGEMENT

12. (C) We are very pleased with the increase in U.S. ship visits -- from 56 in 2006 to 81 in 2007 -- and we anticipate in excess of 120 ship visits this year, which has included the USS BLUE RIDGE in May. The positive impact of these ship visits and the associated community-relations activities in the ports and neighboring areas garner immense goodwill among the local populace. Last month, the USS REAGAN carrier group played a hugely successful role in providing humanitarian assistance to typhoon-stricken areas of central Philippines. Its presence in the area did much to reemphasize the long-standing ties between the United States and the Philippines. The Country Team and I carefully track planned ship visits for maximum positive impact and to avoid overwhelming any regions of the Philippines. We also take great care to work with our Navy colleagues to avoid any incidents that a vocal minority here would use to undermine our strong military to military relationship.

PHILIPPINE POLITICS

13. (C) The Philippine political environment is always tumultuous, but President Arroyo retains a firm grip on the House of Representatives and can also rely on the unwavering support of a large majority of provincial governors and local mayors. Her relationship with top security officials likewise remains strong, and military and police personnel have largely kept out of political debates and stayed focused on their security roles. While there have been some

demonstrations, President Arroyo remains poised to finish her term in 2010.

ECONOMICS AND TRADE

14. (C) Philippine GDP grew by 7.3% in 2007, the fastest pace of growth in over three decades. Growth was fueled by increased government and private construction expenditures, a robust information and communications-technology industry; improved agricultural harvests; and strong private consumption, spurred in part by \$14.4 billion in remittances from overseas workers (equivalent to about 11% of GDP). Record economic growth and an improved image moved the Philippines up five places to 40th in the latest World Competitiveness Yearbook rankings, its best performance since it joined the listing over a decade ago. According to the April 2008 Social Weather Survey, Filipinos' self-assessed proficiency in the English language has recovered in the past two years after a decline over the previous 12 years. GDP growth is expected to slow in 2008, but still reach between 5-6%. The main engine of growth will be private consumption. This will be supported by inflows of remittances, which continue to experience strong growth. President Arroyo has an impressive reform agenda -- privatizing the electric power sector, building infrastructure, increasing education funding, and reducing business red tape -- but still faces significant hurdles, particularly in improving the investment climate. The U.S. remains the Philippines' largest trading partner, with over \$17.1 billion in two-way merchandise trade in 2007.

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MINDANAO: SECURITY, THE PEACE PROCESS, AND COUNTER TERRORISM

15. (C) Military forces and law enforcement officials continue to achieve important successes in counterterrorism efforts; the government has announced the death or capture of eight key terrorist leaders and over 200 other terrorism suspects since August 2006, including the deaths of Abu Sayyaf Group (ASG) leaders Khadaffy Janjalani and Abu Solaiman. Recently, Philippine Forces mounted surgical strikes against a known terrorist camps in Jolo that had served as a safe havens for ASG and Jemaah Islamiyah (JI) members for almost two years.

16. (C) Presidential Advisor on the Peace Process Hermogenes Esperon (and former Chief of the Armed Forces) just announced that the Philippine government and the Moro Islamic Liberation Front (MILF) agreed to a chapter on territory for a new Muslim political entity -- a key issue in facilitating a comprehensive peace plan between the government and the MILF. This new agreement is expected to be signed by early August and will signal the beginning of formal talks for a pact that addresses governance and security in the troubled region of Mindanao. President Arroyo now supports the postponement of local elections, a Muslim insurgent request, to make way for the Mindanao peace process. Progress on the peace progress has historically led to less violence and less cooperation between insurgent commanders and terrorists.

17. (C) U.S. counterterrorism strategy in the region focuses on separating the small numbers of terrorists primarily associated with the Abu Sayyaf Group (ASG) and Jemaah Islamiyah (JI) from Muslim insurgents in the southern Philippines who seek only autonomy from Manila. Thirty-nine years after its founding as the armed wing of the Philippine Communist Party, the 5,000-strong New People's Army (NPA) continues to disrupt public security and business operations with intermittent attacks, primarily in Mindanao, targeting foreign companies, communications networks, and

transportation infrastructure in order to fund their operations through broad-scale extortion rings. While the NPA continues to decline in personnel and effectiveness, it remains steadfast in its refusal to accept President Arroyo's broad amnesty overtures, turning down offers to negotiate unless and until its international designation as a terrorist organization is rescinded.

PHILIPPINE DEFENSE REFORM

18. (C) In an encouraging sign of deepening support for the ongoing armed forces overhaul, Secretary of National Defense Gilberto Teodoro took personal control of Philippine Defense Reform last November, and has been keen to accelerate the program. The Philippine government plans to spend about USD 100 million annually through 2012 to fund defense reform initiatives. To date, the Philippines has spent over \$400 million on defense reform, including \$28 million to match U.S. foreign military financing. Teodoro is personally involved in the process down to the working level, and is currently putting his own personnel into key positions of authority.

UNLAWFUL/EXTRAJUDICIAL KILLINGS

19. (C) Extrajudicial killings remain one of the thorniest issues for the Arroyo administration, with critics charging that rogue elements of the Philippine police and military are responsible for some killings. President Arroyo has spoken out consistently and strongly on the issue, including during the State of the Nation address, and has taken a variety of steps to address the problem, such as the creation of -- or strengthening of existing -- government task forces and commissions. By the end of 2007, these steps, as well as intensified domestic and international attention to the problem, appeared to have had a measurable impact, with government agencies and human rights NGOs reporting a significant decline in the number of extrajudicial killings during the year. The Embassy carefully vets all proposed military and law enforcement personnel about to receive

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U.S.-funded training both internally and with relevant Philippine authorities to comply with the terms of the Leahy Amendments. The Mission is currently working with Department of Justice officials regarding prosecutorial assistance to ensure perpetrators are brought to justice.
KENNEY